

CITY OF PELLA, IOWA

**INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2011

City of Pella, Iowa
Table of Contents
June 30, 2011

City Officials	2
Independent Auditor's Report	3-4
Management's Discussion and Analysis (MD&A)	5-10

<u>Basic Financial Statements:</u>	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	12-13
Statement of Activities	B	14-15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet -		
Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in		
Fund Balances	E	18
Reconciliation of the Statement of Revenues, Expenditures and Changes		
in Fund Balances - Governmental Funds To the Statement of Activities	F	19
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Fund		
Net Assets	H	21
Statement of Cash Flows	I	22-24
Notes to Financial Statements		25-46

<u>Required Supplementary Information:</u>	
Budgetary Comparison Schedule of Revenues, Expenditures and	
Changes in Balances - Budget and Actual (Modified Accrual Basis) -	
Governmental and Proprietary Funds	48
Budgetary Comparison Schedule - Proprietary-GAAP to Modified Accrual	
Reconciliation	49
Notes to Required Supplementary Information - Budgetary Reporting	50
Schedule of Funding Progress for the Retiree Health Plan	51

<u>Other Supplementary Information:</u>	<u>Schedule</u>	
Non-major Governmental Funds:		
Combining Balance Sheet	1	54-55
Combining Schedule of Revenues, Expenditures and		
Changes in Fund Balances	2	56-57
Schedule of Revenues by Source and Expenditures by Function -		
All Governmental Funds	3	58
Schedule of Expenditures and Federal Awards	4	59

Independent Auditor's Report on Internal Control over Financial Reporting	
and on Compliance and Other Matters Based on an Audit of Financial	
Statements Performed in Accordance with <i>Government Auditing Standards</i>	61-62

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect	
on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	63-64

Schedule of Findings and Questioned Costs	65-66
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**City of Pella, Iowa
City Officials
Year Ending June 30, 2011**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Before January, 2011		
Darrell D. Dobernecker	Mayor	January, 2012
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2011
Tony Bokhoven	Council Member	January, 2012
James Mueller	Council Member	January, 2012
Richard Savery	Council Member	January, 2012
Bruce Schiebout	Council Member	January, 2011
Dan Vander Beek	Council Member	January, 2011
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2011
Ronda Brown	City Clerk	January, 2011
After January, 2011		
Darrell D. Dobernecker	Mayor	January, 2012
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2014
Tony Bokhoven	Council Member	January, 2012
James Mueller	Council Member	January, 2012
Richard Savery	Council Member	January, 2012
Bruce Schiebout	Council Member	January, 2014
Dan Vander Beek	Council Member	January, 2014
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2012
Ronda Brown	City Clerk	January, 2012

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Pella's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 10, 2012 on our consideration of the City of Pella's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 5-10 and 48-51 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pella's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

January 10, 2012

The City of Pella provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- The assets of the City of Pella exceeded its liabilities at the close of the fiscal year by \$94,459,073 (net assets).
- The assets of the City's governmental activities exceeded liabilities by \$38,657,580.
- Assets of business type activities exceeded liabilities by \$55,801,493.
- The revenues of the governmental activities exceeded expenses by \$2,216,606.
- Within the City's business-type activities, revenues exceeded expenses by \$269,618. The City policy is to set rates that fund operation expenses and debt service requirements of business-type activities. In addition, rates are established to fund capital improvements either through pay-as-you go financing or through debt issues.
- At June 30, 2011, the general fund had an unrestricted fund balance of \$1,770,017 or working capital of nearly 37% of annual expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This discussion and analysis is intended to serve as an introduction to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The paragraphs below provide a brief description of the government-wide financial statements.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation leave.

The government-wide financial statements are divided into two categories:

Governmental activities - This category consists of services provided by the City that are principally supported by taxes and intergovernmental revenues. Basic City services such as police, fire, public works, planning, parks, the library, and general administration are governmental activities.

Business type activities - These activities are supported primarily by user fees. The services provided by the City in this category, include water, sewer, sanitation services, and electrical utilities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure compliance with legal requirements for financial transactions and reporting. All of the City's funds can be divided into two categories: governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue TIF-Pella Business Corridor fund, debt service fund, and capital project fund, all of which are considered to be major funds. Data from the other nineteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general, debt service, capital projects, and special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

Proprietary funds can be categorized into two groups, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, and environmental services utilities. Internal Service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health insurance program.

The financial statements of the proprietary funds provide the same type of information as the government-wide financial statements with greater detail.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets as noted earlier, may serve as a useful indicator of a government's financial position when observed over time. In the case of the City, assets exceeded liabilities by \$94,459,073 at the close of the most recent fiscal year.

The most significant portion of the city's net assets (83.92%) are reflected in capital assets such as land, buildings, infrastructure, machinery, and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to the citizens and are not available for future spending. A portion of the City's net assets (4.94%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets or the unrestricted net assets of \$10,525,196 may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF PELLA'S NET ASSETS

	Governmental Activities		Business Type Activities		Total	
	June 30,		June 30,		June 30,	
	2011	2010	2011	2010	2011	2010
Current and other assets	11,245,320	10,125,682	13,378,562	13,160,329	24,623,882	23,286,011
Capital assets	39,072,480	37,910,474	61,402,648	62,686,711	100,475,128	100,597,185
Total assets	50,317,800	48,036,156	74,781,210	75,847,040	125,099,010	123,883,196
Current Liabilities	7,249,589	6,371,796	3,831,247	3,707,777	11,080,836	10,079,573
Long-term liabilities	4,410,631	5,223,386	15,148,470	16,607,388	19,559,101	21,830,774
Total Liabilities	11,660,220	11,595,182	18,979,717	20,315,165	30,639,937	31,910,347
Net assets:						
Invested in capital assets, net of related debt	34,482,112	32,561,604	44,789,521	44,666,031	79,271,633	77,227,635
Restricted assets	2,157,468	1,652,260	2,504,776	2,820,632	4,662,244	4,472,892
Unrestricted assets	2,018,000	2,227,110	8,507,196	8,045,212	10,525,196	10,272,322
Total net assets	\$ 38,657,580	\$ 36,440,974	\$ 55,801,493	\$ 55,531,875	\$ 94,459,073	\$ 91,972,849

Analysis of Changes in Net Assets for the Year ended June 30,

	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Charges for service	\$ 530,645	\$ 612,719	\$ 22,203,449	\$ 20,997,950	\$ 22,734,094	21,610,669
Operating grants, contributions	1,086,082	1,075,527	20,186	-	1,106,268	1,075,527
Capital grants, contributions	553,820	342,418	-	15,562	553,820	357,980
General revenues:						
Property taxes	3,740,164	3,844,577	-	-	3,740,164	3,844,577
Local option taxes	1,178,373	1,044,700	-	-	1,178,373	1,044,700
TIF	1,367,004	944,634	-	-	1,367,004	944,634
Other Taxes	417,145	381,025	-	-	417,145	381,025
Grants & contributions	42,128	38,014	-	-	42,128	38,014
Payment in lieu of taxes	443,836	421,409	-	-	443,836	421,409
Investment earnings	17,627	27,539	88,788	156,964	106,415	184,503
Miscellaneous	125	1,500	140,768	210,583	140,893	212,083
Gain on sale of assets	13,425	16,435	4,030	(33,289)	17,455	(16,854)
Contributions to permanent fund	-	-	-	-	-	-
Transfers	241,843	225,785	(241,843)	(225,785)	-	-
Total revenues	9,632,217	8,976,282	22,215,378	21,121,985	31,847,595	30,098,267
Expenses						
Program expenses:						
General government	619,217	679,603	-	-	619,217	679,603
Public Safety	1,835,144	1,789,017	-	-	1,835,144	1,789,017
Public Works	1,806,281	1,824,519	-	-	1,806,281	1,824,519
Culture & Recreation	2,141,407	2,061,992	-	-	2,141,407	2,061,992
Community & Economic Development	670,644	479,800	-	-	670,644	479,800
Facilities & Acquisition	164,012	108,733	-	-	164,012	108,733
Long-term debt and interest cost	178,906	256,144	-	-	178,906	256,144
Water			1,934,975	1,927,694	1,934,975	1,927,694
Wastewater			2,031,855	1,943,150	2,031,855	1,943,150
Sanitation			518,840	504,134	518,840	504,134
Electric			17,460,090	16,705,391	17,460,090	16,705,391
Internal Service					-	-
Total expenses	7,415,611	7,199,808	21,945,760	21,080,369	29,361,371	28,280,177
Change in net assets	\$ 2,216,606	1,776,474	\$ 269,618	41,616	\$ 2,486,224	1,818,090

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances serve as a useful measure of a government's net resources available at the end of the fiscal year.

The City's governmental funds reported a combined fund balance of \$4,068,126 at June 30, 2011. This was an increase of \$67,009 from the prior year and was due to the building of revenues for future capital projects. A summary of each of the government major fund balances is as follows:

General Fund

The general fund's balance decreased by \$196,139 in Fiscal Year 2011. As a result, our fund balance decreased to \$1,985,512 which represents approximately 42% of annual expenditures. The decrease was attributed to funding roof repairs at the Public Safety Complex which were originally scheduled for FY 13.

Debt Service Fund

The debt service fund's balance of \$6,009 can be utilized to offset future general obligation principal and interest payments. During the year the fund balance decreased by \$67.

Special Revenue TIF-Pella Business Corridor Fund

The Pella Business Corridor TIF Fund had a fund balance of \$828,104 at June 30, 2011. During the year the fund balance increased by \$398,537 and will be dedicated towards future capital projects.

Capital Projects Funds

The capital project funds are comprised of one main fund and five smaller funds which are as follows:

Capital Facilities Fund had a fund balance of \$134,632 at June 30, 2011. General Fund capital improvement projects are funded out of this fund. Annually the General Fund transfers amounts to cover expenditures made in the Capital Facilities Fund. However, the fund balance is also available to supplement any capital purchases made by the General Fund.

Other Capital Facility Funds had a total fund balance of \$0 at June 30, 2011.

Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements with greater detail.

The combined net assets of the enterprise funds at June 30, 2011 totaled \$55,801,493 of which \$8,507,196 is unrestricted. Overall, net assets for the enterprise funds increased by \$269,618.

The net assets of internal service funds, which is comprised of the City's health insurance trust fund increased from \$546,372 to \$720,614. The majority of the increase was due to lower than expected claims for the year.

BUDGETARY HIGHLIGHTS

The FY 11 budget was amended on March 1, 2011 for the following reasons:

- The FY 10-11 Budget contained estimated totals for the Electric Utility that were based on the FY 09-10 Budget. Estimated totals were used because a separate budget session is conducted for the utility after Council formally approves the City Budget for all other City funds. The separate session is needed so Council can provide more attention to the Electric Utility and it also gives staff additional time to form estimates, which enhances the reliability of the budget numbers. Therefore, this amendment is simply adjusting the FY 10-11 Budget to include the electric budget that was approved by Council on September 7, 2010. This request contains revenue increases of \$7,763,797 and expenditure increases of \$6,259,420 due to bonding for large capital expenditures.
- Expenditures were increased \$31,760 for repair of the exciter on the power plant GE turbine.
- Expenditures were increased \$231,575 for the roof replacement on the police, fire and ambulance building.
- Expenditures were decreased \$139,820 due to spending less on the indoor pool renovation than budgeted.
- Expenditures were increased \$74,557 to correct the exposed force main serving Lift Station #4.

- Expenditures were increased \$23,500 to repair one of the GAC filters at the water treatment plant.
- The remaining \$124,924 in expenditure increases were due to small projects and items previously budgeted in the FY 09-10 budget whose expenses were not incurred until FY 10-11.
- The July 1, 2010 estimated beginning fund balance used for the budget was decreased by \$1,395,337 to match the actual ending fund balance at June 30, 2010.

None of the above variations are expected to have a significant effect on future services or liquidity.

CAPITAL ASSETS

Capital Assets

Major construction projects and associated expenses for the year included the following:

Governmental Activities

Roof replacement on the police station, fire station and the ambulance building \$220,787
A new chassis for the 1985 fire department equipment truck \$62,535
New Caldwell Park playground \$45,288
Repair Aquatic Center underwater lights in the outdoor pool \$796,574
Replace the roof at the indoor pool \$433,943
Purchase of a new dump truck for Public Works \$126,578
Business 163 street overlay \$276,061
Begin construction of North Main Street \$334,440

Water Fund

Replace water mains under Main Street \$476,855

Wastewater Fund

Replace Marion Street Sewer \$70,968
Replace sewer mains under Main Street \$106,451
IDNR bypass mandate improvements \$143,726
Correct the exposed force main serving Lift Station #4 \$74,569
Begin work on replacing two digester lids at the plant \$93,330

Electric Fund

Begin work on the Diesel Plant stack modification \$55,610
Replace Diesel Plant after coolers \$46,928
Expenses related to analysis of a power supply \$277,282
Begin work on the Electric SE switching station \$495,134
Capital improvements for ownership share of Walter Scott 4 (WS4) \$45,511

Additional information concerning the City's capital assets can be found in the notes to the financial statements.

DEBT ADMINISTRATION

At the close of fiscal year ended June 30, 2011, the City had bonds outstanding of \$21,382,069.
The City maintains an Aa3 rating from Moody's Investor Services on all its general obligation debt and an A2 on electric revenue debt.

State statutes limit the amount of general obligation debt an Iowa city may issue to five percent of the actual assessed valuation at January 1, 2009. The current general obligation debt limitation for the City is \$34,116,348 and at June 30, 2011 there was \$4,725,000 of outstanding general obligation debt. Therefore the city's available debt margin is \$29,391,348 or 86.15%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Due to the national economic recession, the City of Pella has seen consumption decreases for our major utilities over the past few years. These decreases, coupled with infrastructure needs and unfunded mandates from the Iowa Department of Natural Resources (IDNR), will lead to necessary wastewater rate increases in the near future to fully fund the mandates.

Likewise, the current economic recession has lead to stagnant taxable property valuations in the community. While we have not seen increases in property valuations, the City is fortunate not to have experienced decreases in its property tax base as many communities in Iowa have over the last few years. It is also important to note, the State of Iowa continues to experience financial problems as a result of the recession. It also seems likely that some of the State's budget problems will be passed along to local governments. These could include cuts to shared revenue streams such as road use taxes; library and recreation funding grants; and public safety grants. In addition, the City could also face unfunded mandates or forced property tax cuts. Regardless of which area is targeted, it is likely that the State's financial problems will impact the City of Pella's budget.

Listed below is a brief summary of the City's property and utility rates as established in the Fiscal Year 2012 Budget:

Property Taxes

The City was able to maintain its property tax rate in Fiscal Year 2011 at \$10.20/\$1,000 of taxable valuation. In addition, there will be no change in the rate for Fiscal Year 2012.

Electric Rates

The City has not raised electrical rates since 1996. Due to concerns about rising electrical rates and the ability to control costs over the long-term, on June 8, 2011, the City approved a long-term power supply contract with Missouri River Energy Services (MRES) beginning April 1, 2012 through December 31, 2045. Under the terms of the power supply contract, the City will be receiving 100% of its energy needs from MRES. The City believes this new contract with MRES will lower and provide more predictable electrical rates in the future.

Water Rates

For Fiscal Year 2011, there was no rate increase in water rates. Future rate increases may be needed if Council chooses to proceed with adding an additional source of water and treatment improvements for the utility.

Wastewater Rates

For Fiscal Year 2011, there was no rate increased in wastewater rates. In the future, additional rate increases will be needed to complete the mandates passed down from the Iowa Department of Natural Resources.

Requests for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional information should be directed to the City Administrator, 825 Broadway Street, Pella, Iowa 50219.

Financial Statements

City of Pella, Iowa
Statement of Net Assets
June 30, 2011

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 2,894,607	7,057,991	9,952,598
Receivables:			
Property tax:			
Delinquent	39,178	-	39,178
Succeeding year	3,805,211	-	3,805,211
Tax increment financing:			
Delinquent	-	-	-
Succeeding year	1,500,002	-	1,500,002
Local option sales tax	160,799	-	160,799
Accounts (net of allowance for uncollectibles)	5,846	2,507,156	2,513,002
Accrued interest	2,355	9,670	12,025
Due from other governments	435,811	-	435,811
Inventories	-	1,086,941	1,086,941
Deposits	3,000	70,000	73,000
Prepaid expenses	235,229	-	235,229
Restricted assets:			
Cash and pooled investments	2,157,468	2,504,776	4,662,244
Deferred charge (issuance costs)	5,814	142,028	147,842
Capital assets(net of accumulated depreciation)	39,072,480	61,402,648	100,475,128
Total assets	50,317,800	74,781,210	125,099,010
Liabilities			
Excess of warrants over bank balance	\$ 5,300	-	5,300
Accounts payable and accrued liabilities	890,631	1,560,640	2,451,271
Salaries and benefits payable	249,622	160,318	409,940
Deposits	-	82,659	82,659
Accrued interest payable	13,823	47,265	61,088
Deferred revenue:			
Succeeding year property tax	3,805,211	-	3,805,211
Succeeding year tax increment financing	1,500,002	-	1,500,002
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes	790,000	-	790,000
Revenue bonds payable	-	1,801,000	1,801,000
Compensated absences	-	179,365	179,365
Portion due or payable after one year:			
General obligation bonds	3,935,000	-	3,935,000
Revenue bonds payable (net of unamortized discounts)	-	14,799,132	14,799,132
Unamortized bond premium	51,379	12,995	64,374
Compensated absences	387,831	301,828	689,659
Net OPEB liability	31,421	34,515	65,936
Total liabilities	11,660,220	18,979,717	30,639,937

City of Pella, Iowa
Statement of Net Assets
June 30, 2011

Continued from previous page.

Net Assets

	Primary Government		
	Governmental	Business Type	
	Activities	Activities	Total
Invested in capital assets, net of related debt	34,482,112	44,789,521	79,271,633
Restricted for:			
Expendable:			
Debt service and improvements	-	2,336,500	2,336,500
Special Purposes	1,801,973	-	1,801,973
Other	-	98,276	98,276
Non-expendable:			
Permanent Trust	140,000	-	140,000
Prepaid expenditures	212,495	-	212,495
Deposits	3,000	70,000	73,000
Unrestricted	2,018,000	8,507,196	10,525,196
Total net assets	\$ 38,657,580	55,801,493	94,459,073

See notes to financial statements.

Exhibit B

City of Pella, Iowa
Statement of Activities
Year ended June 30, 2011

	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions & Restricted Interest	Capital Grants, Contributions & Restricted Interest
Functions/Programs				
Governmental activities:				
Public safety	\$ 1,835,144	61,692	67,041	-
Public works	1,806,281	49,721	970,318	-
Culture and recreation	2,141,407	349,602	48,723	-
Community and economic development	670,644	2,964	-	-
General government	619,217	66,666	-	-
Long-term debt costs and interest	178,906	-	-	-
Facilities and acquisition	164,012	-	-	553,820
Total governmental activities	7,415,611	530,645	1,086,082	553,820
Business type activities:				
Water	1,934,975	2,055,764	-	-
Wastewater	2,031,855	1,735,955	-	-
Sanitation	518,840	593,822	-	-
Electric	17,460,090	17,817,908	20,186	-
Total business type activities	21,945,760	22,203,449	20,186	-
Total primary government	\$ 29,361,371	22,734,094	1,106,268	553,820
General Revenues:				
Taxes:				
Property taxes				
Local option sales tax				
Tax increment financing				
Other taxes				
Grants and contributions not restricted to specific programs				
Payments in lieu of taxes				
Unrestricted investment earnings				
Miscellaneous				
Gain(loss) on sale/disposal of assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets beginning of year				
Net assets end of year				
See notes to financial statements.				

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,706,411)	-	(1,706,411)
(786,242)	-	(786,242)
(1,743,082)	-	(1,743,082)
(667,680)	-	(667,680)
(552,551)	-	(552,551)
(178,906)	-	(178,906)
389,808	-	389,808
(5,245,064)	-	(5,245,064)
-	120,789	120,789
-	(295,900)	(295,900)
-	74,982	74,982
-	378,004	378,004
-	277,875	277,875
(5,245,064)	277,875	(4,967,189)
3,740,164	-	3,740,164
1,178,373	-	1,178,373
1,367,004	-	1,367,004
417,145	-	417,145
42,128	-	42,128
443,836	-	443,836
17,627	88,788	106,415
125	140,768	140,893
13,425	4,030	17,455
241,843	(241,843)	-
7,461,670	(8,257)	7,453,413
2,216,606	269,618	2,486,224
36,440,974	55,531,875	91,972,849
\$ 38,657,580	55,801,493	94,459,073

Exhibit C

City of Pella, Iowa
Balance Sheet
Governmental Funds
June 30, 2011

	Major Funds				Non-major	
	General	Sp. Rev. TIF-Pella Bus. Corr.	Debt Service	Capital Projects	Other Governmental Funds	Total
Assets						
Cash and pooled investments	\$ 2,060,245	976,588	3,893	283,946	1,005,002	4,329,674
Receivables:						
Property tax:						
Delinquent	31,762	-	2,116	-	5,300	39,178
Succeeding year	3,028,671	-	228,100	-	548,440	3,805,211
Tax increment financing:						
Delinquent	-	-	-	-	-	-
Succeeding year	-	1,500,002	-	-	-	1,500,002
Local option sales tax	-	-	-	-	160,799	160,799
Accounts receivable, miscellaneous	3,017	-	-	-	2,829	5,846
Accrued interest	1,300	-	-	175	300	1,775
Due from other governments	17,082	-	-	418,729	-	435,811
Deposit	3,000	-	-	-	-	3,000
Prepaid expenditures	212,495	-	-	-	-	212,495
Total assets	\$ 5,357,572	2,476,590	234,109	702,850	1,722,670	10,493,791
Liabilities and Fund Balances						
Liabilities:						
Excess of warrants over bank balance	\$ -	-	-	-	5,300	5,300
Accounts payable and accrued liabilities	120,108	148,484	-	568,218	28,719	865,529
Salaries and benefits payable	223,281	-	-	-	26,342	249,623
Deferred revenue:						
Succeeding year property tax	3,028,671	-	228,100	-	548,440	3,805,211
Succeeding year tax increment financing	-	1,500,002	-	-	-	1,500,002
Total liabilities	3,372,060	1,648,486	228,100	568,218	608,801	6,425,665
Fund balances:						
Nonspendable:						
Prepaid expenditures	212,495					212,495
Deposits	3,000					3,000
Permanent Trust	-	-	-	-	140,000	140,000
Restricted for:						
Debt Service	-		6,009			6,009
Capital projects	-	-		134,632	-	134,632
Other purposes	-	828,104	-	-	973,869	1,801,973
Unassigned	1,770,017	-	-	-	-	1,770,017
Total fund balances	1,985,512	828,104	6,009	134,632	1,113,869	4,068,126
Total liabilities and fund balances	\$ 5,357,572	2,476,590	234,109	702,850	1,722,670	10,493,791

See notes to financial statements.

Exhibit D

City of Pella, Iowa
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Assets
June 30, 2011

Total fund balances of governmental funds (Exhibit C) \$ 4,068,126

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$56,949,735 and the accumulated depreciation is \$17,877,255. 39,072,480

An internal service fund is used by management to track the collection and payment of various employee benefits. The assets and liabilities of the internal service fund are included in the statement of net assets. 720,614

Long-term liabilities, including bonds/notes payable, bond discounts or premiums (initial and amortized), bond issuance costs (initial and amortized), compensated absences payable, other postemployment benefits payable, and accrued interest payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (5,203,640)

Net assets of governmental activities (Exhibit A) \$ 38,657,580

See notes to financial statements.

Exhibit E

City of Pella, Iowa
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2011

	Major Funds				Non-major	
	General	Sp. Rev. TIF-Pella Bus. Corr.	Debt Service	Capital Projects	Other Governmental Funds	Totals
Revenues:						
Property tax	\$ 3,011,910	-	226,583	-	501,671	3,740,164
Tax increment financing	-	1,367,004	-	-	-	1,367,004
Local option sales tax	-	-	-	-	937,924	937,924
Other city taxes	413,906	-	924	-	2,315	417,145
Licenses and permits	50,908	-	-	-	-	50,908
Use of money and property	46,534	1,362	69	1,125	5,403	54,493
Intergovernmental	539,273	-	-	552,695	1,232,188	2,324,156
Charges for services	384,807	-	-	-	390	385,197
Miscellaneous	62,005	-	-	-	37,953	99,958
Total revenues	4,509,343	1,368,366	227,576	553,820	2,717,844	9,376,949
Expenditures:						
Operating:						
Public safety	1,722,219	-	-	-	21,677	1,743,896
Public works	314,325	-	-	-	811,983	1,126,308
Culture and recreation	1,740,354	-	-	-	56,880	1,797,234
Community and economic development	360,248	309,865	-	-	-	670,113
General government	583,175	-	-	-	-	583,175
Debt service	-	-	977,618	-	-	977,618
Capital projects	-	-	-	2,666,864	-	2,666,864
Total expenditures	4,720,321	309,865	977,618	2,666,864	890,540	9,565,208
Excess (deficiency) of revenues over (under) expenditures	(210,978)	1,058,501	(750,042)	(2,113,044)	1,827,304	(188,259)
Other financing sources (uses):						
Operating transfers in	560,069	-	749,975	2,083,564	100,000	3,493,608
Operating transfers (out)	(550,000)	(659,964)	-	-	(2,041,801)	(3,251,765)
Proceeds from sale of assets	4,770	-	-	2,982	5,673	13,425
Total other financing sources (uses)	14,839	(659,964)	749,975	2,086,546	(1,936,128)	255,268
Net change in fund balances	(196,139)	398,537	(67)	(26,498)	(108,824)	67,009
Fund balances beginning of year	2,181,651	429,567	6,076	161,130	1,222,693	4,001,117
Fund balances end of year	\$ 1,985,512	828,104	6,009	134,632	1,113,869	4,068,126

See notes to financial statements.

City of Pella, Iowa
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds to the Statement of Activities
Year ended June 30, 2011

Net change in fund balances - Total governmental funds (Exhibit E) **\$ 67,009**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and depreciation expense in the current year are as follows:

Expenditures for capital assets	\$ 2,502,852	
Depreciation expense	<u>(1,340,846)</u>	1,162,006

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. Also governmental funds report the effect of bond issuance costs and premiums, whereas these amounts are deferred and amortized in the Statement of Activities.

Current year items are as follows:

Principal payments of general obligation bonds	785,000	
Amortization of bond premiums	13,118	
Amortization of bond issuance costs	<u>(1,484)</u>	796,634

An internal service fund is used by management to track collections of medical and dental insurance premiums and Section 125 deductions from the employer and employee as well as disbursements for health and dental insurance premiums and claims, Section 125 claims, and other employee benefits.

Interest revenue from governmental internal service fund	4,130	
Employer funds for benefits shifted from other funds	827,224	
Employee benefits collected through withholding	215,260	
Claims and premiums paid out	<u>(872,372)</u>	174,242

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	25,886	
Other postemployment benefits	(11,249)	
Interest on long-term debt	<u>2,078</u>	16,715

Change in net assets of governmental activities (Exhibit B) **\$ 2,216,606**

See notes to financial statements.

Exhibit G

City of Pella, Iowa
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
Assets						
Current assets:						
Cash and pooled investments	\$ 1,196,621	894,512	4,921,273	45,585	7,057,991	722,401
Receivables:						
Accrued interest	1,689	902	7,049	30	9,670	580
Trade (net of allowance for uncollectible)	179,260	157,774	2,118,108	52,014	2,507,156	-
Inventories	91,182	124,671	871,088	-	1,086,941	-
Security Deposit			70,000		70,000	-
Prepaid expenses	-	-	-	-	-	22,734
Restricted assets:						
Cash and pooled investments	254,000	-	2,235,159	15,617	2,504,776	-
Total current assets	1,722,752	1,177,859	10,222,677	113,246	13,236,534	745,715
Non-current assets:						
Deferred charge (issuance costs)	12,776	33,722	95,530	-	142,028	-
Capital assets:						
Land, wastewater rights and infrastructure	118,360	907,049	550,724	-	1,576,133	-
Depreciable buildings, property, equipment and infrastructure, net	7,369,245	9,556,202	42,901,068	-	59,826,515	-
Total non-current assets	7,500,381	10,496,973	43,547,322	-	61,544,676	-
Total assets	\$ 9,223,133	11,674,832	53,769,999	113,246	74,781,210	745,715
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 69,384	99,739	1,350,916	40,601	1,560,640	25,101
Salaries and benefits payable	30,431	20,678	107,948	1,261	160,318	-
Deposits	-	-	82,659	-	82,659	-
Accrued interest payable	4,149	7,395	35,721	-	47,265	-
Compensated absences payable	34,589	26,868	116,265	1,643	179,365	-
Long-term debt - due within one year:						
Revenue bonds payable	340,000	246,000	1,215,000	-	1,801,000	-
Total current liabilities	478,553	400,680	2,908,509	43,505	3,831,247	25,101
Long-term liabilities (net of current portion):						
Compensated absences payable	78,282	50,520	173,026	-	301,828	-
Net OPEB liability	5,941	5,588	22,727	259	34,515	-
Revenue bonds payable (net of unamortized discount)	1,002,340	3,011,069	10,785,723	-	14,799,132	-
Unamortized bond premium	-	-	12,995	-	12,995	-
Total long-term liabilities	1,086,563	3,067,177	10,994,471	259	15,148,470	-
Total liabilities	1,565,116	3,467,857	13,902,980	43,764	18,979,717	25,101
Net Assets						
Invested in capital assets, net of related debt	6,145,265	7,206,182	31,438,074	-	44,789,521	-
Restricted for:						
Nonexpendable:						
Security Deposit	-	-	70,000	-	70,000	-
Expendable:						
Revenue note retirement	254,000	-	1,582,500	-	1,836,500	-
Electric improvement	-	-	500,000	-	500,000	-
Other	-	-	82,659	15,617	98,276	-
Unrestricted	1,258,752	1,000,793	6,193,786	53,865	8,507,196	720,614
Total net assets	\$ 7,658,017	8,206,975	39,867,019	69,482	55,801,493	720,614

See notes to financial statements

City of Pella, Iowa
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
June 30, 2011

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
Operating revenues:						
Charges for service (pledged for revenue notes)	\$ 2,055,764	1,735,955	17,817,908	593,822	22,203,449	-
Intergovernmental	-	-	20,186	-	20,186	-
Miscellaneous	36,327	27,387	29,977	-	93,691	-
Internal service charges	-	-	-	-	-	1,042,484
Total operating revenues	2,092,091	1,763,342	17,868,071	593,822	22,317,326	1,042,484
Operating expenses:						
Business type activities:						
Personnel services	714,964	472,869	2,433,154	34,779	3,655,766	-
Contractual	-	18,099	-	457,399	475,498	694,041
Franchise fees	51,438	34,797	-	-	86,235	-
Materials and Supplies	531,245	566,962	7,835,407	26,662	8,960,276	-
Purchased power	-	-	4,586,184	-	4,586,184	-
Payments in lieu of taxes	-	-	443,836	-	443,836	-
Payments in lieu of services	-	-	95,010	-	95,010	-
Depreciation	570,033	822,471	1,587,735	-	2,980,239	-
Claims expense	-	-	-	-	-	178,331
Total operating expenses	1,867,680	1,915,198	16,981,326	518,840	21,283,044	872,372
Operating income (loss)	224,411	(151,856)	886,745	74,982	1,034,282	170,112
Non-operating revenues (expenses):						
Debt costs and interest	(67,295)	(116,657)	(478,764)	-	(662,716)	-
Interest income	12,679	8,327	67,510	272	88,788	4,130
Rents	24,840	14,675	-	-	39,515	-
Sale/disposal of fixed assets	-	-	4,030	-	4,030	-
Miscellaneous revenues	-	-	-	7,562	7,562	-
Net non-operating revenues (expenses)	(29,776)	(93,655)	(407,224)	7,834	(522,821)	4,130
Income (loss) before operating transfers	194,635	(245,511)	479,521	82,816	511,461	174,242
Transfers (out)	(7,213)	(169,458)	(10,329)	(54,843)	(241,843)	-
Net other financing sources (uses)	(7,213)	(169,458)	(10,329)	(54,843)	(241,843)	-
Change in net assets	187,422	(414,969)	469,192	27,973	269,618	174,242
Net assets beginning of year	7,470,595	8,621,944	39,397,827	41,509	55,531,875	546,372
Net assets end of year	\$ 7,658,017	8,206,975	39,867,019	69,482	55,801,493	720,614

See notes to financial statements.

Exhibit I

City of Pella, Iowa
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2011

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	
Cash flows from operating activities:						
Cash received from customers and users	\$ 2,078,817	1,754,788	17,876,025	591,657	22,301,287	
Cash received from intergovernmental sources	-	-	20,186	-	20,186	-
Cash received from internal service charges	-	-	-	-	-	1,042,484
Cash paid for personal services	(709,247)	(465,554)	(2,410,644)	(35,313)	(3,620,758)	-
Cash paid to suppliers	(580,941)	(583,922)	(12,535,622)	(482,413)	(14,182,898)	(883,393)
Replacement tax, transfers	-	-	(443,836)	-	(443,836)	-
Net cash provided (used) by operating activities	788,629	705,312	2,506,109	73,931	4,073,981	159,091
Cash flows from non-capital financing activities:						
Miscellaneous receipts	24,840	14,675	-	7,562	47,077	-
Transfers (out)	(7,213)	(169,458)	(10,329)	(54,843)	(241,843)	-
Net cash provided (used) by non-capital financing activities	17,627	(154,783)	(10,329)	(47,281)	(194,766)	-
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(553,025)	(504,632)	(638,519)	-	(1,696,176)	-
Principal paid on revenue notes (as scheduled)	(320,000)	(235,000)	(1,175,000)	-	(1,730,000)	-
Proceeds from revenue bonds issued	-	299,069	-	-	299,069	-
Interest costs (not capitalized)	(61,310)	(113,899)	(461,115)	-	(636,324)	-
Other long-term debt costs	(6,945)	(4,854)	(20,355)	-	(32,154)	-
Proceeds from sale of capital assets	-	-	4,030	-	4,030	-
Net cash used by capital and related financing activities	(941,280)	(559,316)	(2,290,959)	-	(3,791,555)	-
Cash flows from investing activities:						
Proceeds from (deposits into) investments	147,262	(5,442)	(157,396)	(143)	(15,719)	(2,759)
Interest on investments	13,447	8,653	70,082	283	92,465	4,340
Net cash provided by investing activities	160,709	3,211	(87,314)	140	76,746	1,581
Net (decrease) in cash and cash equivalents	25,685	(5,576)	117,507	26,790	164,406	160,672
Cash and cash equivalents at beginning of year	473,456	312,621	2,294,602	14,816	3,095,495	183,768
Cash and cash equivalents at end of year	\$ 499,141	307,045	2,412,109	41,606	3,259,901	344,440

City of Pella, Iowa
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2011

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	
<i>Continued from previous page</i>						
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 224,411	(151,856)	886,745	74,982	1,034,282	170,112
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	570,033	822,471	1,587,735	-	2,980,239	-
Change in assets and liabilities:						
(Increase) decrease in receivables	(13,274)	(8,554)	53,430	(2,165)	29,437	-
(Increase) decrease in inventory	42,848	(9,029)	(55,805)	-	(21,986)	-
(Increase) in customer deposits	-	-	(70,000)	-	(70,000)	-
(Increase) decrease in prepaid expense	-	-	26,690	-	26,690	(12,122)
Increase (decrease) in accounts payable	(41,106)	44,965	80,094	1,648	85,601	1,101
Increase (decrease) in accrued expenses	120	(82)	(3,801)	(397)	(4,160)	-
Increase (decrease) in compensated absences	4,176	5,597	20,078	(214)	29,637	-
(Decrease) in deposits held	-	-	(25,290)	-	(25,290)	-
Increase in other postemployment benefits	1,421	1,800	6,233	77	9,531	-
Total adjustments	564,218	857,168	1,619,364	(1,051)	3,039,699	(11,021)
Net cash provided (used) by operating activities	\$ 788,629	705,312	2,506,109	73,931	4,073,981	159,091
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:						
Current assets:						
Unrestricted assets:						
Cash and pooled investments	\$ 1,196,621	894,512	4,921,273	45,585	7,057,991	722,401
Restricted assets:						
Cash and pooled investments:						
Water bond reserve	254,000	-	-	-	254,000	-
Electric security deposit	-	-	70,000	-	70,000	-
Electric bond reserve	-	-	1,582,500	-	1,582,500	-
Electric improvement reserve	-	-	500,000	-	500,000	-
Customer deposits & project share	-	-	82,659	-	82,659	-
Sanitation totes	-	-	-	15,617	15,617	-
	254,000	-	2,235,159	15,617	2,504,776	-
Total cash and pooled investments	1,450,621	894,512	7,156,432	61,202	9,562,767	722,401
Less items not meeting definition of cash equivalent:						
Certificates of deposit	(921,427)	(568,912)	(4,594,469)	(18,977)	(6,103,785)	(366,023)
Iowa Public Agency Investment Trust	(30,053)	(18,555)	(149,854)	(619)	(199,081)	(11,938)
	(951,480)	(587,467)	(4,744,323)	(19,596)	(6,302,866)	(377,961)
Cash and cash equivalents at year end	\$ 499,141	307,045	2,412,109	41,606	3,259,901	344,440

Exhibit I

City of Pella, Iowa
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2011

	Business Type Activities					Governmental
	Enterprise Funds					Activities
	Water	Wastewater	Electric	Sanitation	Total	Internal Service Funds
<i>Continued from previous page</i>						
Non-cash investing, capital and financing activities:						
Current issuance cost expense, prior cash outlay	\$ 3,262	3,258	16,311	-	22,831	-
Current discount amortization, prior cash receipt	3,233	-	(7,150)	-	(3,917)	-
Current premium amortization, prior cash outlay	-		4,456	-	4,456	-

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Pella, Iowa is a political subdivision of the State of Iowa located in Marion County. It was incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. It also provides water, sewer, electrical and sanitation utilities.

The financial statements of the City of Pella, Iowa, are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Pella has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Pella has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues from general and emergency levies and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Pella Business Corridor Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Debt Service Fund is used to account for property tax and other revenues to be used for the payment of interest and principal on the City's general obligation long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

The Electric Fund is used to account for the operation and maintenance of the City's electricity production, procurement and transmission system.

In addition, the City reports the following fund types:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

These non-major governmental funds are grouped for financial statement reporting purposes:

Special Revenue:

The High Point Tax Increment Financing fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Road Use Tax fund is used to account for road construction and maintenance.

The Local Option Sales Tax fund is used to account for the revenues from the tax authorized by referendum and used for aquatic center, debt relief, capital improvements, equipment and community programs and services.

The Employee Benefits fund is used to account for property tax levied to finance the payment of employee benefits.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

The Pella Clothing Bank, Police Reserve, Community Development Trust, Carnegie-Viersen Library Gift/Memorial, Pella Community Center Trust, Pella Community Center Van Trust, Art Center Trust, Airport Trust, Police Asset Forfeiture, Soccer Complex, Community Service Scholarship Trust, Parks Development, and Carnegie-Viersen-Van Gorp Trust funds receive proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes.

The Permanent funds resources are restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. That is, for the benefit of the government or its citizenry.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the modified accrual basis. The financial statements of the City are prepared by making memorandum adjusting entries to the modified accrual basis financial records.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most City funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

For purposes of the statement of cash flow, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Trade receivables - Trade receivables are recorded in the enterprise funds at the time the service is billed. Trade receivables for the enterprise funds are listed net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated each year. See note 3.

Inventories - Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Property Taxes Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting. Property taxes receivable represent taxes received by or expected to be received within 60 days after year end.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2011 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2010.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include special purpose funds and customer deposits restricted for application to unpaid customer accounts or for refund to customers.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

Capital Assets - Capital assets, which include property, equipment, vehicles and infrastructure assets acquired after July 1, 1980 (e.g. roads, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with an initial, individual cost in excess of \$5,000, or lower if they want to specifically track and identify the asset such as computer purchases, and estimated useful lives in excess of two years.

Capital assets depreciated using the straight line method of depreciation over the following estimated useful lives in years, are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Roads	20-50
Wastewater, Water and Electrical Systems	25-75
Buildings	40
Improvements	25-35
Furniture, fixtures, and equipment	5-35
Vehicles	5-7

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capital improvements made in the water, sewer and electric funds were financed with existing revenues, no interest on debt was incurred or capitalized.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

All vested vacation leave is in current compensated absences. In accordance with the provisions of Governmental Accounting Standards Board Statement 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. One year sick pay allocation is included in current compensated absences. Sick pay which has built up in an employees account, but is not expected to be paid in the current year is in long-term compensated absences. Liabilities have been computed based on rates of pay as of June 30, 2011.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the public safety, community and economic development, general government and debt service functions.

(2) **Cash and Pooled Investments**

The City's deposits at June 30, 2011 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2011 are as follows:

Certificates of deposit	\$ 7,625,681
Iowa Public Agency Investment Trust	247,011
Government Bonds	14,209
Total	<u>\$ 7,886,901</u>

The investments in the Iowa Public Agency Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Public Agency Investment Trust is rated Aaa by Moody's Investors Service. The investments in Government Bonds are primarily invested in U.S. Treasury securities.

(3) Trade Accounts Receivable and Allowance for Uncollectibles

Utility revenue is recorded when earned. Customers are billed monthly. The City Municipal Water, Wastewater, Sanitation, and Electric Utility's trade accounts receivable is based on actual customer billings. If a customer defaults on their bill, current policy does not remove their balance or details from accounts receivable. The idea being, if that same party seeks utility service from one of the municipal utilities it will not be provided until the old bill is paid. To compensate for these uncollectible balances, the allowance for uncollectible accounts includes 100% of accounts 60 days or older and 50% of accounts 30 days old. An allowance for uncollectibles has been calculated for the following enterprise funds: Electric, Water, Wastewater and Sanitation. Amounts are as follows: \$228,389, \$40,244, \$36,525 and \$15,841, respectively.

(4) Proprietary Revenues Net of Discounts and Allowances

Enterprise Fund	Gross Charges for Services	(Increase) Decrease in	Net Charges for Service
		Allowance	
Water	\$ 2,060,176	(4,412)	2,055,764
Wastewater	1,739,887	(3,932)	1,735,955
Electric	17,821,153	(3,245)	17,817,908
Sanitation	594,469	(647)	593,822

(5) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(6) Emission Credits

The Electric Fund earns emission credits throughout the year. These credits are expended if emissions are below EPA set requirements. The City has no cost in the credits; therefore, according to available accounting guidance, they have not been recorded in the financial statements. The credits are potentially saleable, however, and should the City's emissions be below acceptable levels, these credits would offset otherwise imposed costs. Emission credit activity and value of the unused credits for the year ended June 30, 2011 is as follows:

Credit Type	Number of Credits					Value	
	7/1/2010	Earned	Used/ Transferred	Bought/Sold	6/30/2011	Each	Total
SO2 (1 Ton)	9,086	0	-263	0	8,823	\$ 3	\$ 26,469
SO2 (.5 Ton)	1,764	1,764	0	0	3,528	2	7,056
Nox(Annual)	253	140	-199	0	194	155	30,070
Nox(Seasonal)	167	63	-86	0	144	20	2,880
Total	11,270	1,967	-548	0	12,689		\$ 66,475

(7) **Capital Assets**

Capital assets activity for the year ended June 30, 2011 was as follows:

Primary Government:	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,450,589	-	-	5,450,589
Construction in progress:				
Roof Replacement - 3 buildings	8,176	220,787	228,963	-
W 3rd & Washington Traffic Signals	137,620	3,367	140,987	-
Interoperability	35,974	33,072	69,046	-
North Main St. Replacement	57,422	334,440	-	391,862
Airport Runway Rehab	-	33,509	-	33,509
Renovation of Indoor Pool	-	433,943	-	433,943
Business 163 Overlay	-	276,061	-	276,061
University St. Reconstruction	-	36,013	-	36,013
Total capital assets not being depreciated	5,689,781	1,371,192	438,996	6,621,977
Capital assets being depreciated:				
Vehicles	786,460	237,195	-	1,023,655
Buildings and improvements	23,920,785	1,038,503	-	24,959,288
Machinery and equipment	5,674,723	153,971	80,399	5,748,295
Infrastructure	18,526,451	140,987	70,918	18,596,520
Total capital assets being depreciated	48,908,419	1,570,656	151,317	50,327,758
Less accumulated depreciation for:				
Vehicles	360,962	104,558	-	465,520
Buildings and improvements	5,030,944	606,658	-	5,637,602
Machinery and equipment	5,081,360	112,930	80,399	5,113,891
Infrastructure	6,214,460	516,700	70,918	6,660,242
Total accumulated depreciation	16,687,726	1,340,846	151,317	17,877,255
Total capital assets being depreciated net	32,220,693	229,810	-	32,450,503
Governmental activities capital assets, net	\$ 37,910,474	1,601,002	438,996	39,072,480

(7) **Capital assets (continued from previous page)**

Business type activities:

Water Fund:

Capital assets not being depreciated:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Land	\$ 118,360	-	-	118,360
Construction in progress:				
Water System Analysis	65,145	24,538	89,683	-
Central Drive Loop	5,322	-	-	5,322
N. Main St. Water Main Replacement	21,222	476,855	-	498,077
Total capital assets not being depreciated	210,049	501,393	89,683	621,759

Capital assets being depreciated:

Buildings and improvements	9,627,431	-	-	9,627,431
Machinery and equipment	787,843	33,744	91	821,496
Furniture and fixtures	1,079	-	-	1,079
Vehicles	94,043	-	-	94,043
Infrastructure	4,848,782	107,571	-	4,956,353
Total capital assets being depreciated	15,359,178	141,315	91	15,500,402

Less accumulated depreciation for:

Buildings and improvements	5,460,198	260,275	-	5,720,473
Machinery and equipment	345,497	99,250	91	444,656
Furniture and fixtures	1,079	-	-	1,079
Vehicles	57,007	16,149	-	73,156
Infrastructure	2,200,833	194,359	-	2,395,192
Total accumulated depreciation	8,064,614	570,033	91	8,634,556

Total capital assets being depreciated net

7,294,564	(428,718)	-	6,865,846
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Water - capital assets, net

\$ 7,504,613	72,675	89,683	7,487,605
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(7) *Capital assets (continued from previous page)*

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Wastewater Fund:				
Capital assets not being depreciated:				
Land	\$ 907,049	-	-	907,049
Construction in Progress:				
North Main Sewer Replacement	3,799	106,451	-	110,250
IDNR Bypass Mandate Improvements	103,241	143,726	-	246,967
Marion St. Sewer	-	70,968	-	70,968
Flat Roof Replacement	-	15,588	-	15,588
Digester Lid Replacement	-	93,330	-	93,330
Total capital assets not being depreciated	1,014,089	430,063	-	1,444,152
Capital assets being depreciated:				
Buildings and improvements	16,671,232	-	-	16,671,232
Machinery and equipment	631,938	-	269	631,669
Furniture and fixtures	4,154	-	-	4,154
Vehicles	297,372	-	-	297,372
Infrastructure	7,724,511	74,569	-	7,799,080
Total capital assets being depreciated	25,329,207	74,569	269	25,403,507
Less accumulated depreciation for:				
Buildings and improvements	11,579,458	435,005	-	12,014,463
Machinery and equipment	435,189	34,562	269	469,482
Furniture and fixtures	4,154	-	-	4,154
Vehicles	129,150	43,254	-	172,404
Infrastructure	3,414,255	309,650	-	3,723,905
Total accumulated depreciation	15,562,206	822,471	269	16,384,408
Total capital assets being depreciated net	9,767,001	(747,902)	-	9,019,099
Wastewater - capital assets, net	\$ 10,781,090	(317,839)	-	10,463,251

(7) **Capital assets (continued from previous page)**

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Electric Fund:				
Capital assets not being depreciated:				
Land	\$ 550,724	-	-	550,724
Construction in progress:				
Cable Replacement - Brook Circle	24,625	-	24,625	-
83662 WS4 Training Simulator	7,545	5,149	12,694	-
Diesel Plant Stack Ext	10,000	55,610	-	65,610
Ins. Settings-Feeder Breakers	11,370	-	-	11,370
SE Switching Station	-	495,134	-	495,134
Diesel Plant RICE	-	23,554	-	23,554
02347 WS4 Fall 2010 Aerial Surveys	-	1,726	-	1,726
Total capital assets not being depreciated	604,264	581,173	37,319	1,148,118
Capital assets being depreciated:				
Buildings and improvements	36,595,838	16,500	-	36,612,338
Machinery and equipment	28,152,203	78,165	-	28,230,368
Furniture and fixtures	16,988	-	-	16,988
Vehicles	416,534	-	-	416,534
Total capital assets being depreciated	65,181,563	94,665	-	65,276,228
Less accumulated depreciation for:				
Buildings and improvements	11,521,566	718,280	-	12,239,846
Machinery and equipment	9,485,722	848,443	-	10,334,165
Furniture and fixtures	16,988	-	-	16,988
Vehicles	360,543	21,012	-	381,555
Total accumulated depreciation	21,384,819	1,587,735	-	22,972,554
Total capital assets being depreciated net	43,796,744	(1,493,070)	-	42,303,674
Electric-capital assets, net	\$ 44,401,008	(911,897)	37,319	43,451,792

(7) **Capital assets (continued from previous page)**

Combining Schedule

Business type activities:

Capital assets not being depreciated:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Land	\$ 1,576,133	-	-	1,576,133
Construction in progress	252,269	1,512,629	127,002	1,637,896
Total capital assets not being depreciated	1,828,402	1,512,629	127,002	3,214,029

Capital assets being depreciated:

Total capital assets being depreciated	105,869,948	310,549	360	106,180,137
Total accumulated depreciation	45,011,639	2,980,239	360	47,991,518
Total capital assets being depreciated (net)	60,858,309	(2,669,690)	-	58,188,619

Business type activities capital assets, net

\$ 62,686,711	(1,157,061)	127,002	61,402,648
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Depreciation was charged to functions of the primary government as follows:

Governmental activities:

Public works	\$ 668,984
Public safety	112,788
Culture and recreation	352,369
General government	206,705
Total depreciation expense - governmental activities	1,340,846

Business type activities:

Water	\$ 570,033
Wastewater	822,471
Electric	1,587,735
Total depreciation expense - business type activities	\$ 2,980,239

(8) **Long-Term Liabilities**

The City currently has long-term debt obligations in the form of general obligation bonds and revenue bonds. The City does not have any special assessment debt. The following is a summary of changes in long-term liabilities of the City of Pella for the year ended June 30, 2011:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due in More than One Year
Governmental activities:						
General obligation bonds/notes	\$ 5,510,000	-	785,000	4,725,000	790,000	3,935,000
Unamortized premium	64,497	-	13,118	51,379	-	51,379
Compensated absences	413,716	156,280	182,165	387,831	-	387,831
Net OPEB liability	20,172	13,098	1,849	31,421	-	31,421
Total governmental activities	\$ 6,008,385	169,378	982,132	5,195,631	790,000	4,405,631
Business type activities:						
Revenue bonds/notes (gross)	\$ 18,088,000	299,069	1,730,000	16,657,069	1,801,000	14,856,069
Unamortized premium	17,451	-	4,456	12,995	-	12,995
Compensated absences	451,556	206,920	177,283	481,193	179,365	301,828
Net OPEB liability	24,984	11,096	1,565	34,515	-	34,515
Total	18,581,991	517,085	1,913,304	17,185,772	1,980,365	15,205,407
Unamortized discount	(67,320)	-	10,383	(56,937)	-	(56,937)
Total business type activities	\$ 18,514,671	517,085	1,923,687	17,128,835	1,980,365	15,148,470

(8) **Long-Term Liabilities (continued from previous page)**

General Obligation Bonds

Four issues of unmatured general obligation bonds/notes totaling \$4,725,000 are outstanding at June 30, 2011. General obligation bonds/notes bear interest rates ranging from 3.00% to 4.10% per annum and mature in varying annual amounts, ranging from \$105,000 to \$380,000, with final maturities due in the year ending June 30, 2020.

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Details of general obligation bonds/notes payable at June 30, 2011 are as follows:

Governmental activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2011
General and essential corporate purpose	2006	3.85-4.05%	June 1, 2016	\$230,000-270,000	\$ 2,260,000	1,235,000
General and essential corporate purpose	2008A	3.00-3.90%	June 1, 2018	115,000-150,000	1,230,000	920,000
General and essential corporate purpose	2008B	3.00-4.10%	June 1, 2020	105,000-150,000	1,420,000	1,130,000
Essential corporate purpose	2010A	3.00%	June 1, 2015	340,000-380,000	2,115,000	1,440,000
Total governmental activities						<u>\$ 4,725,000</u>

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year ending June 30,	General Obligation Debt		
	Principal	Interest	Total
2012	790,000	165,882	955,882
2013	820,000	140,228	960,228
2014	850,000	113,113	963,113
2015	885,000	84,508	969,508
2016	525,000	54,158	579,158
2017-2020	855,000	75,232	930,232
Total	<u>\$ 4,725,000</u>	<u>633,121</u>	<u>5,358,121</u>

General obligation bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various general obligation bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
General Government G/O	2006	2,260,000	June 1, 2014
General Government G/O	2008A	1,230,000	On & after 6/1/2016
General Government G/O	2008B	1,420,000	On & after 6/1/2016
G/O Debt-Refunding Urban renewal	2010A	2,115,000	Not subject to call

(8) **Long-Term Liabilities (continued from previous page)**

Revenue Notes

Eight issues of unmatured revenue notes totaling \$16,657,069 are outstanding at June 30, 2011. These notes bear interest at rates ranging from 2.00% to 4.30% per annum and mature in varying annual amounts ranging from \$27,000 to \$1,090,000 with the final maturity due in the year ending June 30, 2021.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a) The notes will only be redeemed from the future net revenues of the enterprise activity and the note holders hold a lien on the future net revenues of the funds.
- b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- c) Separate electric, water and wastewater improvement and replacement accounts have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions, repairs to the system, or principal or interest payments if necessary.
- d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% for wastewater, and not less than 130% for electric and water, of the amount of principal and interest on the notes falling due in the same year. Net revenues are defined as gross earnings after the deduction of current expenses; including the cost of operating, maintaining, repairing and insuring the system, purchases at wholesale, salaries, wages, and cost of materials and supplies. This excludes; the cost of depreciation, principal and interest payments, capital expenditures, franchise fees and transfers.

During the year ended June 30, 2011, the City was in compliance with the revenue note provisions.

Details of revenue notes payable at June 30, 2011, are as follows:

Business type activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2011
Wastewater	1999	3.00%	June 1, 2021	\$139,000-197,000	\$ 2,800,000	1,666,000
Wastewater	2000	3.00%	June 1, 2021	80,000-116,000	1,604,000	968,000
Wastewater	2000	3.00%	June 1, 2021	27,000-39,000	641,000	324,000
Electric	2004	3.40-3.90%	June 1, 2019	115,000-1,090,000	6,000,000	5,410,000
Electric	2005	3.75-4.00%	June 1, 2019	520,000-710,000	7,000,000	4,865,000
Water refunding	2007	3.65-3.70%	June 1, 2015	295,000-370,000	2,540,000	1,355,000
Electric refunding	2010	2.00-2.10%	June 1, 2014	580,000-600,000	2,825,000	1,770,000
SRF Drawdown - final amounts not yet established				125,069-174,000		299,069
						16,657,069
Unamortized discount						(56,937)
Total business type activities -Net revenue bonds						<u>\$ 16,600,132</u>

(8) **Long-Term Liabilities (continued from previous page)**

A summary of annual revenue note principal and interest requirements to maturity are as follows:

Year ended June 30,	Enterprise Funds							
	Water		Wastewater		Electric		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	340,000	49,790	246,000	88,740	1,215,000	428,646	1,801,000	567,176
2013	350,000	37,380	256,000	81,360	1,280,000	393,636	1,886,000	512,376
2014	370,000	24,605	440,000	73,680	1,325,000	355,136	2,135,000	453,421
2015	295,000	10,915	401,069	65,700	1,500,000	314,496	2,196,069	391,111
2016	-	-	288,000	57,420	1,570,000	259,046	1,858,000	316,466
2017-2021	-	-	1,626,000	150,270	5,155,000	408,386	6,781,000	558,656
Total	\$ 1,355,000	122,690	3,257,069	517,170	12,045,000	2,159,346	16,657,069	2,799,206

Revenue notes may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of redemption by registered mail to the registered owner of the bond. The dates at which the various revenue bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
Wastewater	1999	\$ 2,800,000	Dec. 15, 2009
Wastewater	2000	1,604,000	Dec. 15, 2009
Wastewater	2000	641,000	Dec. 15, 2009
Electric	2004	6,000,000	June 1, 2012
Electric	2005	7,000,000	June 1, 2013
Water refunding	2007	2,540,000	Not subject to call
Electric refunding	2010	2,825,000	Not subject to call
Wastewater	2010	SRF Drawdown final amount not determined	

The following is a summary of the transactions for revenue notes, net of unamortized discounts, for the water, sewer, and electric utilities for the year ended June 30, 2011:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Water revenue notes	\$ 1,675,000	-	(320,000)	1,355,000
Unamortized discount	(15,893)	-	3,233	(12,660)
Net water revenue notes	1,659,107	-	(316,767)	1,342,340
Sewer revenue notes	3,193,000	299,069	(235,000)	3,257,069
Net sewer revenue notes	3,193,000	299,069	(235,000)	3,257,069
Electric revenue notes	13,220,000	-	(1,175,000)	12,045,000
Unamortized discount	(51,427)	-	7,150	(44,277)
Net electric revenue notes	13,168,573	-	(1,167,850)	12,000,723
Total net revenue notes	\$ 18,020,680	299,069	(1,719,617)	16,600,132

The \$299,069 increase in sewer revenue notes is from the SRF loan fund. It is a partial draw down on a loan that has been approved to be up to \$4,800,000. This preliminary draw down is interest free but the loan's terms estimate a closing on a loan agreement in the fall of 2011 with interest at 3%. It is estimated that the funds may be distributed through the fall of 2013 with the first estimated payment to begin 6/1/2014. Actual interest and principal payments will be determined by the timing and extent of the actual funds borrowed. Principal payments for the purpose of this report were based on the estimated amortization tables provided, and no interest on these funds were included. Interest, once the loan is finalized, is estimated to be at 3.00%.

(8) **Long-Term Liabilities (continued from previous page)**

Long-term Debt Interest Expense - The long-term debt costs and interest, governmental activities, in the Statement of Activities in the amount of \$178,906 is all direct debt costs and interest expense on long-term debt.

Discount and issuance costs are deferred and amortized over the term of the notes using the straight-line method, which approximates the effective interest method. Discounts are presented as a reduction of the face amount of bonds/notes payable whereas issuance costs are recorded as deferred charges. The details of the discounts are listed in the previous schedules. The unamortized issuances costs are listed as an asset on the balance sheet. The issuance costs are amortized over the life of the loan and are included in interest and debt costs. Issuance costs detail is as follows:

	Balance Beginning of Year	Incurred	Amortized	Balance End of Year
Governmental activities:				
G.O. bond	\$ 7,298	-	(1,484)	5,814
Business type activities:				
Sewer SFR Loan	32,570	4,410	(3,258)	33,722
Water revenue note	16,038	-	(3,262)	12,776
Electric revenue note	111,841	-	(16,311)	95,530
Total business type:	160,449	4,410	(22,831)	142,028
Total deferred issuance costs	\$ 167,747	4,410	(24,315)	147,842

(9) **Interfund Transfers**

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to:	Transfer from:	Amount
	Special Revenue:	
General	Employee Benefits	\$ 505,226
	Environmental Services	54,843
		<u>560,069</u>
	Special Revenue:	
Debt Service	Local option sales tax	50,000
	Pella Business Corridor- TIF	537,730
	Wastewater	162,245
		<u>749,975</u>
Special Revenue:		
Road use	General	<u>100,000</u>
Capital Projects	General	450,000
	Electric	10,329
	Water	7,213
	Wastewater	7,213
	Special Revenue:	
	Local option sales tax	1,230,517
	Road use	256,058
	Pella Business Corridor- TIF	122,234
		<u>2,083,564</u>

(10) **Net Assets Restricted by Enabling Legislation**

The components of Net Restricted Assets listed in Exhibit A are as follows:

Restricted for:	Governmental Activities	Business Type Activities
Nonexpendable:		
Customer Deposits	\$ -	70,000
Expendable:		
Debt restricted - Water Bond Reserve		254,000
Debt restricted - Electric Bond Reserve	-	1,582,500
Debt restricted - Electric Improvement Reserve	-	500,000
Other - deposits	-	98,276
Special purposes:		
TIF - High Point	55	-
TIF - Pella Business Corridor	828,104	-
Road use	484,887	-
Local Option Sales Tax	174,107	-
Pella Clothing Bank	988	-
Police Reserve	1,184	-
Community Development	4,864	-
Library Gifts/Memorials	103,069	-
Pella Community Center	2,179	-
Pella Community Center Van Trust	5,584	-
Art Center	19,915	-
Airport	38,236	-
Police Asset Forfeiture	40,663	-
Soccer Complex	844	-
Community Service Scholarship Trust	752	-
Parks Development	17,643	-
Carnegie-Viersen Trust Earnings - Educational purposes	34,685	-
Carnegie-Viersen-Van Gorp Trust - Library operations and repairs	33,022	-
Van Gorp Trust Earnings - Information Windmill Repairs	11,192	-
Nonspendable - Prepaid expenditures	212,495	-
Nonspendable - Deposits	3,000	-
Nonspendable - Permanently restricted donation - Carnegie-Viersen Trust	40,000	-
Nonspendable - Permanently restriction donation - Van Gorp Trust	100,000	-
Total net restricted assets	\$ 2,157,468	2,504,776

(11) **Retirement Plans**

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

(11) Retirement Plans (continued from previous page)

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009, were \$315,024, \$321,128, and \$285,261, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 19.9% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2011, 2010 and 2009 were \$137,243, \$116,631, and \$121,364, respectively, which met the required minimum contribution for each year.

(12) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 84 active and no retired members in the plan. General participants (IPERS) must be age 55 or older at retirement. Police participants (MFDRSI) must be age 55 or older with 22 years of service at retirement. Surviving spouse/dependents of retirees are allowed to remain on health coverage at their own expense until age 65.

The medical/prescription drug coverage is provided through a purchased high deductible health insurance plan and a partially self-funded plan where the City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$	24,113
Interest on net OPEB obligation		1,806
Adjustment to annual required contribution		(1,725)
Annual OPEB cost		<u>24,194</u>
Contributions made		<u>(3,414)</u>
Increase in net OPEB obligation		20,780
Net OPEB obligation beginning of year		<u>45,156</u>
Net OPEB obligation end of year	\$	<u><u>65,936</u></u>

(12) **Other Postemployment Benefits (continued from previous page)**

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2011, the City contributed \$3,414 toward the annual required OPEB contribution. It also funded 90% of the established premium toward active members' health coverage. Active members receiving benefits contributed \$88,853, or 10% of the established premium, through their required contribution of \$47 or \$99 per month, depending on whether single or family coverage is elected. There were no retirees covered during fiscal year 2011.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 24,155	4.4%	45,156
June 30, 2011	20,780	4.4%	65,936

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2011, the actuarial accrued liability was \$199 thousand, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$199 thousand. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,202,220 and the ratio of the UAAL to covered payroll was 4.7%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 4% discount rate based on the City's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2008 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2008.

Projected claim costs of the medical plan are \$733 per month for retirees less than age 60 and \$894 per month for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(13) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 for employees and Code Section 401 for the position of City Administrator. The 457 plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust of the exclusive benefit of plan participants and beneficiaries. These funds are invested and held by the ICMA-RA (International City County Management Association Retirement Corporation) and not by the City. Therefore, they are not listed as a liability of the City.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

(14) Related Party Transactions

The City had business transactions between the City and Council members totaling \$143.00 during the year ended June 30, 2011. There were no related payables at June 30, 2011.

(15) Major Customer

During the year ended June 30, 2011, the City of Pella Municipal Electric Utility had two major customers. They purchased \$3,401,347 and \$2,093,736 of electric power. These charges represent 19.09% and 11.75%, respectively, of total charges for electric services.

(16) Risk Management

Insurance - The City of Pella carries commercial insurance purchased from issuers for coverage associated with risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Shared Funding/Partial Self-Funding Health Care Plan – The City of Pella entered into a 28E agreement on July 7, 2009, as allowed by Chapter 28E of the Code of Iowa which authorizes the joint exercise of governmental powers that would include a cooperative agreement to create and maintain a health benefit program. The participating agencies join together to form the Iowa Governmental Health Care Plan (IGHCP). IGHCP is a benefits trust for shared risk pooling among Public Employers in the State of Iowa. Its unique design allows entities to enter into the trust based on claims experience, plan design and demographics. The entities are then pooled at renewal, using total claims experience to develop renewal percentages.

IGHCP purchases a high deductible health insurance plan from Wellmark, Blue Cross/Blue Shield. The City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan.

The City escrows funds from each month to be used to pay medical claims incurred. The maximum exposure to the City for claims incurred is limited by the spread between the deductibles and out-of-pocket maximums and those of the policy carried by the City. For 2010, the risk spread for employees with single coverage was \$2,750 per employee and for those with family coverage was \$5,500 per employee. The total risk in 2010 was \$409,750. In 2011, the risk spread was \$2,750 for employees with single coverage and \$5,500 for employees with family coverage. Total risk in 2011 was \$409,750 if every employee hit their maximum out-of-pocket amounts.

At June 30, 2011, the plan held \$722,401 cash and pooled investments. The actuarial estimate of the reserves necessary for the claims incurred but not yet paid was \$25,000, which is listed as the accounts payable balance of the internal Service Fund.

(17) Commitments

The City has entered into several contracts totaling \$6,550,215. At June 30, 2011, \$2,308,663 had been paid towards these contracts. The remaining amounts will be paid as work on the projects progresses.

Contracts	Contract Amount	Amount Paid	% Complete
Oskaloosa/Main Street Resurfacing Norris Asphalt Paving Co.	\$ 274,756	261,018	95%
Digester Lid Improvements-Engineering Howard R. Green Company	98,000	62,947	64%
Televised Sanitary Sewer Visu-Sewer	307,047	90,706	30%
North Main Reconstruction-Engineering Garden & Associates	231,500	168,276	73%
Digester Lids CL Carroll Company, Inc	777,865	29,436	4%
Northeast Sanitary Sewer Improvement-Engineering Howard R Green Company	343,200	226,000	66%
North Main Reconstruction Concrete Technologies, Inc.	1,665,356	733,218	44%
Airport Runway 16/34 Rehab-Engineering Snyder & Assoc.	42,266	33,337	79%
Electric Diesel Stacks-Engineering Stanley Consultants	80,000	27,920	35%
University Street Reconstruction Blommers Construction	325,464	-	0%
Pella Indoor Pool-Mech & Electrical Cunningham, Inc.	203,450	6,683	3%
Pella to I-80 Corridor Feasibility Study CH2MHILL	400,049	318,603	80%
Airport Runway 16/34 Rehab Pella Concrete Contractors, Inc.	146,953	-	0%
Southeast Switching Station-Engineering DeWild Grant Reckert	183,500	137,625	75%
Southeast Switching Station-Material RESO-Switches	165,192	-	0%
WESCO-Capacitor Bank	56,605	-	0%
Galvanizers, Inc.	169,246	-	0%
RESCO-Transformers	96,800	-	0%
Mitsubishi Electric-Breakers	497,866	-	0%
Lime Sludge Removal & Disposal Biosolids Management Group, Inc.	161,964	-	0%
University Street Construction-Engineering Garden & Associates	51,500	32,839	64%
Pella Indoor Pool-Mech & Electrical-Engineering Water's Edge Aquatic Design, LLC	17,500	11,000	63%
Replacement Airport-Engineering Snyder & Assoc.	211,136	126,410	60%
Oskaloosa/Main St. Resurfacing Engineering Snyder & Assoc.	43,000	42,645	99%
	<u>\$ 6,550,215</u>	<u>2,308,663</u>	

(17) Commitments (continued from previous page)

Other Contracts:		Expires:
Coal Supply Agreement		
Interstate Power & Light	Base price	12/31/2012
Ash Disposal Agreement		
Interstate Power & Light	Base price	12/31/2012
Solid Waste Collection		
Kal Services, Inc.	per ton	7/31/2012

(18) Contingent Liability and Gain

The City is subject to pending litigation seeking damages. The amount and probability of loss, if any, is not determinable. However, the City believes any loss would be covered by insurance.

The City has been awarded \$788,000 from a lawsuit filed concerning construction of certain parts of the new aquatic center. The matter proceeded to trial July, 2010 and, while judgment was made in favor of the City, action related to collection of the judgment is ongoing. The success of collection of this judgment is unknown at this time.

(19) Subsequent Events

On June 8, 2011, the City approved a long-term power supply contract with Missouri River Energy Services (MRES) beginning April 1, 2012 through December 31, 2045. Under the terms of the power supply contract, the City will be receiving 100% of its energy needs from MRES. The agreement also included the sale of Walter Scott Unit 4 for \$26.8 million which occurred on November 1, 2011, and a resource payment to MRES in the amount of \$8,460,000 which represents the City of Pella's investment in the generating assets of MRES. On November 2, 2011, after the sale of Walter Scott Unit 4, \$8,460,000 was wired to an escrow account at Wells Fargo to be held until April 1, 2012.

On November 1, 2011, the City of Pella sold the City's 1.33% ownership share of Walter Scott 4 which includes the City's share of the plant and associated transmission assets. Walter Scott 4 was sold to various current joint owners of Walter Scott 4 for \$26.8 million.

On November 1, 2011, the City of Pella Electric Department defeased three revenue bonds by placing a portion of the proceeds of Walter Scott 4 in an escrow account with Banker's Trust to provide for all future debt service payments on the Electric Revenue bonds, Series 2004; Electric Revenue Bonds, Series 2005; and Electric Revenue Capital Loan Notes, Series 2010B. As a result, the bonds are considered to be defeased and no longer a liability of the City of Pella Electric Department.

At November 1, 2011, the outstanding revenue bonds that are considered defeased are as follows:

Electric Revenue Bonds, Series 2004	\$5,410,000
Electric Revenue Bonds, series 2005	4,865,000
Electric Revenue Refunding Capital Loan Notes, Series 2010B	1,770,000
	<u>\$12,045,000</u>

Required Supplementary Information

City of Pella, Iowa
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances
Budget and Actual (Modified Accrual Basis)
Governmental and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2011

	Budgeted Amounts					
	Governmental Funds-Actual	Proprietary Funds-Actual	Total Actual	Original	Final	Final to Actual Variance
Revenues:						
Property taxes	\$ 3,740,164	-	3,740,164	3,723,460	3,723,460	16,704
Tax increment financing	1,367,004	-	1,367,004	1,365,394	1,365,394	1,610
Other city taxes	1,355,069	-	1,355,069	1,362,846	1,362,846	(7,777)
Licenses and permits	50,908	-	50,908	28,700	28,700	22,208
Use of money and property	54,493	128,303	182,796	365,839	364,939	(182,143)
Intergovernmental	2,324,156	20,186	2,344,342	2,362,300	2,624,272	(279,930)
Charges for services	385,197	22,203,449	22,588,646	22,429,609	24,693,349	(2,104,703)
Special Assessments	-	-	-	-	-	-
Miscellaneous	99,958	101,253	201,211	138,500	138,500	62,711
Total revenues	9,376,949	22,453,191	31,830,140	31,776,648	34,301,460	(2,471,320)
Expenditures:						
Public safety	1,743,896	-	1,743,896	1,666,382	1,666,382	(77,514)
Public works	1,126,308	-	1,126,308	1,142,788	1,140,358	14,050
Culture and recreation	1,797,234	-	1,797,234	1,925,877	1,879,489	82,255
Community and economic development	670,113	-	670,113	574,899	573,667	(96,446)
General government	583,175	-	583,175	528,497	552,834	(30,341)
Debt service	977,618	-	977,618	975,818	975,818	(1,800)
Capital projects	2,666,864	-	2,666,864	2,799,050	3,208,035	541,171
Business type activities	-	22,367,349	22,367,349	25,093,412	29,477,071	7,109,722
Total expenditures	9,565,208	22,367,349	31,932,557	34,706,723	39,473,654	7,541,097
Excess (deficiency) of revenues over (under) expenditures	(188,259)	85,842	(102,417)	(2,930,075)	(5,172,194)	5,069,777
Other financing sources (uses):						
Operating transfers in	3,493,608	-	3,493,608	10,512,404	12,613,361	9,119,753
Operating transfers out	(3,251,765)	(241,843)	(3,493,608)	(10,512,404)	(12,613,361)	(9,119,753)
Debt Proceeds	-	299,069	299,069	2,733,000	6,133,000	5,833,931
Proceeds from sale of assets	13,425	4,030	17,455	5,000	5,000	(12,455)
Total other financing sources	255,268	61,256	316,524	2,738,000	6,138,000	5,821,476
Excess (deficiency) of revenues and other financing sources over (under) expenditures	67,009	147,098	214,107	(192,075)	965,806	(751,699)
Balance beginning of year	4,001,117	11,653,750	15,654,867	16,208,486	14,813,149	841,718
Balance end of year	\$ 4,068,126	11,800,848	15,868,974	16,016,411	15,778,955	90,019

See the following page for GAAP to modified accrual conversion necessary for this comparison.

See accompanying independent auditor's report.

City of Pella, Iowa
Budgetary Comparison Schedule
Proprietary-GAAP to Modified Accrual Reconciliation
Required Supplementary Information
Year ended June 30, 2011

	Proprietary Funds		
	GAAP	Accrual Adjustments	Modified Accrual Basis
Total revenues	\$ 22,453,191	-	22,453,191
Expenses:			
Business type activities	21,945,760	421,589	22,367,349
Excess (deficiency) of revenues under expenses	507,431	(421,589)	85,842
Other financing sources (uses):			
Operating transfers to other funds	(241,843)	-	(241,843)
Sale of fixed assets	4,030	-	4,030
Debt proceeds	-	299,069	299,069
Other revenues	-	-	-
Total other financing sources (uses)	(237,813)	299,069	61,256
Increase in net assets	269,618	(122,520)	147,098
Beginning net assets	55,531,875	(43,878,125)	11,653,750
Ending net assets	\$ 55,801,493	(44,000,645)	11,800,848

The City budgets on the modified accrual basis. It includes proprietary expenditures outlays for capital assets and debt principal paid with adjustments to remove the effects of depreciation and bond issuance and discount costs recognized in GAAP accounting. The adjustments account for the \$421,589 adjustment to proprietary expenditures.

See accompanying independent auditor's report.

The budgetary comparison is presented as Required Supplementary Information in accordance with *Government Accounting Standards* Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the modified accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$2,524,812, increased budgeted disbursements by \$4,766,931 and increased other financing sources by \$3,400,000. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements in the public safety, community and economic development, general government and debt service functions exceeded the amounts budgeted.

City of Pella, Iowa
Schedule of Funding Progress for the Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2009	\$ -	199,000	199,000	0.0%	\$ 4,866,000	4.1%
2010	July 1, 2009	-	199,000	199,000	0.0%	4,259,187	4.7%
2011	July 1, 2009	-	199,000	199,000	0.0%	4,202,220	4.7%

See Note 12 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

City of Pella, Iowa

Other Supplementary Information

Schedule 1

City of Pella, Iowa
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2011

Special Revenue Funds								
	Highpoint Tax Increment Financing	Road Use	Local Option Sales Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/Memorial
Assets								
Cash and pooled investments	\$ 55	530,519	13,308	-	987	1,183	4,859	103,690
Receivable:								
Property tax:								
Delinquent	-	-	-	5,300	-	-	-	-
Succeeding year	-	-	-	548,440	-	-	-	-
Local option sales tax	-	-	160,799	-	-	-	-	-
Accounts receivable, miscellaneous	-	2,829	-	-	-	-	-	-
Accrued interest	-	-	-	-	1	1	5	65
Total assets	\$ 55	533,348	174,107	553,740	988	1,184	4,864	103,755
Liabilities and Fund Balance								
Liabilities:								
Excess of warrants over bank balance	\$ -	-	-	5,300	-	-	-	-
Accounts payable	-	22,119	-	-	-	-	-	686
Salaries and benefits payable	-	26,342	-	-	-	-	-	-
Deferred revenue:								
Succeeding year property tax	-	-	-	548,440	-	-	-	-
Total liabilities	-	48,461	-	553,740	-	-	-	686
Fund balances:								
Nonspendable:								
Permanent trust	-	-	-	-	-	-	-	-
Restricted for:								
Other purposes	55	484,887	174,107	-	988	1,184	4,864	103,069
Total fund balances	55	484,887	174,107	-	988	1,184	4,864	103,069
Total liabilities and fund balance	\$ 55	533,348	174,107	553,740	988	1,184	4,864	103,755

See accompanying independent auditor's report.

Schedule 1

Special Revenue Funds									Permanent Funds		
Pella Community Center Trust	Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Service Scholarship Trust	Parks Development	Carnegie-Viersen- Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
2,178	5,614	19,915	38,195	45,561	844	752	18,609	34,647	73,022	111,064	1,005,002
-	-	-	-	-	-	-	-	-	-	-	5,300
-	-	-	-	-	-	-	-	-	-	-	548,440
-	-	-	-	-	-	-	-	-	-	-	160,799
1	-	-	41	2	-	-	18	38	-	128	2,829
2,179	5,614	19,915	38,236	45,563	844	752	18,627	34,685	73,022	111,192	1,005,300
-	-	-	-	-	-	-	-	-	-	-	5,300
-	30	-	-	4,900	-	-	984	-	-	-	28,719
-	-	-	-	-	-	-	-	-	-	-	26,342
-	-	-	-	-	-	-	-	-	-	-	548,440
-	30	-	-	4,900	-	-	984	-	-	-	608,801
-	-	-	-	-	-	-	-	-	40,000	100,000	140,000
2,179	5,584	19,915	38,236	40,663	844	752	17,643	34,685	33,022	11,192	973,869
2,179	5,584	19,915	38,236	40,663	844	752	17,643	34,685	73,022	111,192	1,113,869
2,179	5,614	19,915	38,236	45,563	844	752	18,627	34,685	73,022	111,192	1,722,670

Schedule 2

City of Pella, Iowa

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Non-Major Other Governmental Funds

Year ended June 30, 2011

	Special Revenue Funds								
	Highpoint Tax Increment Financing	Road Use	Local option sales tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/ Memorial	Pella Community Center
Revenues:									
Property tax	\$ -	-	-	501,671	-	-	-	-	-
Local option sales tax	-	-	937,924	-	-	-	-	-	-
Other City Taxes	-	-	-	2,315	-	-	-	-	-
Intergovernmental	-	966,234	240,449	-	-	-	-	11,619	-
Use of money and property	-	-	392	1,240	6	9	34	499	7
Charges for service	-	390	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	2,302	-	-	23,738	2,700
Total revenues	-	966,624	1,178,765	505,226	2,308	9	34	35,856	2,707
Expenditures:									
Operating:									
Public Safety	-	-	-	-	-	-	-	-	-
Public works	-	811,983	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	2,650	-	-	26,414	2,876
Total expenditures	-	811,983	-	-	2,650	-	-	26,414	2,876
Excess (deficiency) of revenues over (under) expenditures	-	154,641	1,178,765	505,226	(342)	9	34	9,442	(169)
Other financing sources (uses):									
Operating transfer in	-	100,000	-	-	-	-	-	-	-
Operating transfer (out)	-	(256,058)	(1,280,517)	(505,226)	-	-	-	-	-
Proceeds from sale of assets	-	5,673	-	-	-	-	-	-	-
Total other financing sources (uses)	-	(150,385)	(1,280,517)	(505,226)	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	-	4,256	(101,752)	-	(342)	9	34	9,442	(169)
Fund balances beginning of year	55	480,631	275,859	-	1,330	1,175	4,830	93,627	2,348
Fund balances end of year	\$ 55	484,887	174,107	-	988	1,184	4,864	103,069	2,179

See accompanying independent auditor's report.

Schedule 2

Special Revenue Funds								Permanent Funds		
Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Service Scholarship Trust	Parks Develop- ment	Carnegie-Viersen- Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
-	-	-	-	-	-	-	-	-	-	501,671
-	-	-	-	-	-	-	-	-	-	937,924
-	-	-	-	-	-	-	-	-	-	2,315
-	-	-	13,886	-	-	-	-	-	-	1,232,188
9	29	269	84	2	1	128	255	1,598	841	5,403
-	-	-	-	-	-	-	-	-	-	390
-	4,694	-	-	-	-	4,519	-	-	-	37,953
9	4,723	269	13,970	2	1	4,647	255	1,598	841	2,717,844
-	-	-	21,677	-	-	-	-	-	-	21,677
-	-	-	-	-	-	-	-	-	-	811,983
800	5,487	-	-	1,523	349	13,231	-	-	3,550	56,880
800	5,487	-	21,677	1,523	349	13,231	-	-	3,550	890,540
(791)	(764)	269	(7,707)	(1,521)	(348)	(8,584)	255	1,598	(2,709)	1,827,304
-	-	-	-	-	-	-	-	-	-	100,000
-	-	-	-	-	-	-	-	-	-	(2,041,801)
-	-	-	-	-	-	-	-	-	-	5,673
-	-	-	-	-	-	-	-	-	-	(1,936,128)
(791)	(764)	269	(7,707)	(1,521)	(348)	(8,584)	255	1,598	(2,709)	(108,824)
6,375	20,679	37,967	48,370	2,365	1,100	26,227	34,430	71,424	113,901	1,222,693
5,584	19,915	38,236	40,663	844	752	17,643	34,685	73,022	111,192	1,113,869

City of Pella, Iowa
Schedule of Revenues by Sources and Expenditures by Function
All Governmental Funds
For the Last Ten Years

	Modified Accrual Basis									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues:										
Property tax	\$ 3,740,164	3,844,577	3,420,082	2,863,107	2,792,009	2,778,762	2,722,753	2,837,958	2,794,278	2,605,151
Tax increment financing revenue	1,367,004	944,634	1,616,632	2,022,553	1,867,289	1,675,567	1,672,240	1,444,657	1,069,118	732,375
Local option sales tax	937,924	806,475	1,180,851	875,711	984,332	1,000,702	813,900	851,409	908,915	424,448
Other city tax	417,145	381,025	400,928	516,806	499,706	394,645	366,366	367,213	384,797	323,714
Licenses and permits	50,908	41,960	29,859	18,266	21,369	27,320	30,033	20,427	14,558	14,351
Use of money and property	54,493	65,787	117,224	158,941	177,215	178,192	151,017	120,419	99,101	170,331
Intergovernmental	2,324,156	2,064,034	1,709,321	1,622,953	1,519,012	1,438,435	1,686,186	1,687,032	2,009,076	1,974,034
Special assessments	-	-	-	-	44,124	-	-	-	-	2,588
Charges for service	385,197	460,177	492,108	411,384	340,054	377,208	353,694	251,492	310,852	307,930
Miscellaneous	99,958	125,394	112,268	170,369	406,459	277,790	183,838	516,042	289,876	752,519
Total	<u>\$ 9,376,949</u>	<u>8,734,063</u>	<u>9,079,273</u>	<u>8,660,090</u>	<u>8,651,569</u>	<u>8,148,621</u>	<u>7,980,027</u>	<u>8,096,649</u>	<u>7,880,571</u>	<u>7,307,441</u>
Expenditures:										
Operating:										
Public safety	\$ 1,743,896	1,551,122	1,538,082	1,568,486	1,411,218	1,401,296	1,338,999	1,148,456	1,098,202	1,088,566
Public works	1,126,308	1,122,410	1,101,806	1,037,294	1,010,058	911,054	951,204	918,075	1,524,769	1,659,514
Culture and recreation	1,797,234	1,687,573	1,815,563	1,645,610	1,585,354	1,532,929	1,516,237	1,491,734	1,412,690	1,973,083
Community and economic development	670,113	479,241	504,894	463,659	541,534	506,050	601,903	262,752	86,560	237,300
General government	583,175	468,360	450,969	344,179	339,003	336,511	338,399	666,256	718,703	940,854
Debt service	977,618	3,719,956	1,372,483	5,853,291	1,706,474	4,092,597	1,795,402	1,743,005	3,881,721	1,400,224
Capital projects	2,666,864	631,463	1,255,727	3,142,731	2,217,218	1,446,816	668,144	3,205,314	367,781	894,029
Total	<u>\$ 9,565,208</u>	<u>9,660,125</u>	<u>8,039,524</u>	<u>14,055,250</u>	<u>8,810,859</u>	<u>10,227,253</u>	<u>7,210,288</u>	<u>9,435,592</u>	<u>9,090,426</u>	<u>8,193,570</u>

See accompanying independent auditor's report

Schedule 4

City of Pella, Iowa
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Grantor/Program	CFDA Number	Grant Number	Expenditures
Direct:			
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607	FY 11	\$ 3,886
U.S. Department of Transportation:			
Airport Improvement Program	20.106	AIP-3-19-0112-09	31,168
Airport Improvement Program	20.106	AIP 3-19-0112-005P	15,068
Total direct			50,122
Indirect:			
U.S. Department of Justice:			
Polk County Sheriff's Department:			
ARRA- Edward Byrne Memorial Justice Assistance Grant - (JAG) Program/Grants to States and Territories	16.803	09JAG/ARRA-3460B	39,831
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205	STP-U-5947(614)-7O-63	200,915
ARRA- Highway Planning and Construction	20.205	ESL-5947(613)-7S-63	273,814
			474,729
Iowa Department of Public Safety:			
Alcohol Impaired Driving Counter Measures	20.601	PAP-10-410,Task 58	2,972
Alcohol Impaired Driving Counter Measures	20.601	PAP 11-410,Task 58	10,323
U.S. Environmental Protection Agency:			
Iowa Finance Authority:			
Clean Water State Revolving Fund	66.458	PDCW-1077	299,069
U.S. Department of Homeland Security:			
Iowa Homeland Security and Emergency Management:			
Disaster Grants - Public Assistance- (Presidentially Declared Disasters)	97.036	FY 11	20,186
Total indirect			847,110
Total			\$ 897,232

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Pella, Pella, Iowa and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

City of Pella, Iowa



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Van Maanen, Sietstra & Meyer, PC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards

To the Honorable Mayor and Members of the City Council
City of Pella, Iowa:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 10, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pella's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pella's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pella's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Pella's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Pella's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pella and other parties to whom the City of Pella may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pella during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

January 10, 2012



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Van Maanen, Sietstra & Meyer, PC

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and Members of the City Council City of Pella, Iowa:

Compliance

We have audited the City of Pella's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City of Pella's major federal programs for the year ended June 30, 2011. The City of Pella's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the City of Pella's management. Our responsibility is to express an opinion on the City of Pella's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pella's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Pella's compliance with those requirements.

In our opinion, the City of Pella complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City of Pella is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Pella's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

The City of Pella's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit the City of Pella's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pella and other parties to whom the City of Pella may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

January 10, 2012

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office Management and Budget Circular A-133, Section .510a).
- (g) The major programs were as follows:
 - Clustered programs:
 - CFDA Number 20.205 – Highway Planning and Construction
 - CFDA Number 20.205 – ARRA – Highway Planning and Construction
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Pella did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Expenditures for the year ended June 30, 2011, exceeded the budget in the public safety, community and economic development, general government and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

City of Pella, Iowa
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Response - The budget will be amended in the future.

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees for the year ended June 30, 2011 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mark DeJong, Council Member Owner of DeJong Greenhouses	Plants	\$ 143

There were no related payables at June 30, 2011.

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the Council Member do not appear to represent conflict of interest since the total transaction with the individual was less than \$1,500 during the fiscal year.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (7) Council Minutes - Published minutes did not include the purpose of the expenditure, total disbursements by fund, and a summary of receipts.

Recommendation - The purpose of expenditures should be included in the published minutes.

Response - When expenditures are approved by Council, a description of the expenditure is provided that ranges in length from seven to fifteen words. The system does not have the capability to print a report that summarizes our description into one word for publication purposes. We will investigate our ability to include the other information.

Conclusion - Response accepted.

- (8) Revenue Bonds - The City has complied with the provisions of the revenue bond indentures.